



The Surrey Local Pension Board 23 October 2018

Summary of the Pension Fund Committee meeting of 14 September 2018

Recommendations:

1. The Board is asked to **note** the content of this report.

Detail:

Introduction

2. The Pension Fund Committee met on 14 September 2018. This report provides a summary of this meeting and any resolutions made.

Action Tracker and Forward Plan

3. The latest approved Action Tracker and Forward Plan are shown as Annex 1 and Annex 2.

Local Pension Board report

4. The Pension Fund Committee (Committee) received the report from the Local Pension Board (Board) including the following recommendations (shown as Annex 3):
 - Risk registers:
 - The Board recommended that the new risk of change in Section 151 Officer should be added to the register.

The Committee approved all the recommendations

5. The Committee welcomed the new Pensions Service Delivery Manager to the meeting. The Local Pension Board Chairman congratulated the Chairman of the Committee on his appointment as the newly elected Vice-Chairman on the Border to Coast Pension Partnership (BCPP) Joint Committee.

6. The lack of resource and employer data concerns were highlighted as issues faced by the service. There was a discussion around how work was being carried out to address these issues.
7. It was noted that the Local Pension Board recommended a further review of the appropriateness of current “performance aspiration” and “tolerance” performance standard in an effort to introduce a target that would work best. The Pensions Service Delivery Manager highlighted that the service was also in the process of re-structuring teams to focus on improving these statistics.
8. There was a discussion around the Guaranteed Minimum Pension (GMP) reconciliation project and the Committee were recommended to obtain expert legal advice when deciding how to tackle returns.
9. The Pension Fund Committee:
 - Updated the Local Pension Board on the current position regarding pension member representation in the BCPP governance structure. A paper is to be taken by the BCPP Officer’s Operations Group to the Joint Committee meeting of 21 November 2018, which will recommend the appointment of a member representative on the Joint Committee. The selection process is expected to be facilitated through the partner fund Local Pension Boards.
 - Concluded that there were no reviews as to the compliance of particular cases, projects or processes that the Local Pension Board should undertake.

Investment Manager Issues

10. It was highlighted that the global equity mandates in particular the global equity portfolio had become overweight (£75m) due to strong returns. Officers brought forward recommendations to rebalance the equity holdings.
11. The Pension Fund Committee:
 - Authorised officers to rebalance the equity holdings by disinvesting £50m from Marathon and £25m from Newton, and investing the £75m proceeds into Western MAC portfolio.
 - Authorised officers to invest £20m of the current surplus internally managed cash into the MAC fund managed by Western. In combination with the above, this will bring that fund broadly into line with its target.
 - Authorised officers to top-up the allocation from current surplus of internally managed cash Baillie Gifford from to bring it into line with its target. (c£10m).
 - Noted the changes in the Asset Allocation Update (Investment Manager Issues – Annex 1) to now include 5% Private Equity Allocation Policy, in line with ISS.

Private equity investment performance review

12. The Committee were advised that to ensure that the Fund remained consistent to its target asset allocation of 5% to private equity, regular investments had to be considered.

13. It was highlighted that the Fund investment consultants, Mercer, had produced a report recommending a theme of private equity for new investment and suggested a list of defined characteristics that would be desirable.
14. Future allocations would be made through the Border to Coast Partnership however in the meantime officers including the Fund's advisors supported an additional commitment to a new fund during 2018.
15. It was explained that a new commitment was time sensitive and Members were asked to delegate the selection of an appropriate strategy to the Chairman, Officers and advisors, with an update to be provided at the Committee's next meeting on 16 November 2018.
16. The Committee reviewed the fund status of fund managers and asked officers to explain the life cycle of investments. Officers clarified the following terms;
 - Value creation – all monies drawn
 - Investing – monies still being drawn
 - Distributing – monies fully drawn and being returned
 - Fully realised – monies fully returned
17. The Pension Fund Committee:
 - Agreed the Fund continue to drawdowns of the existing private equity schemes, and consider new opportunities to the Pension Fund Committee for approval as and when they realise.
 - Approved the recommendations of the Fund's investment consultant, Mercer, to invest a further £30-£40m in new private equity fund with its defined characteristics.
 - Approved officers to work with Mercer and the independent advisor to research the market for appropriate private equity providers with these defined characteristics and bring a further recommendation to the Pension Fund Committee.

Corporate Governance

18. The Committee were provided with a summary of the Fund's share voting proves in Q1 of 2018/19 (1 April 2018 to 30 June 2018).
19. The report also included a class action against BHP who is a firm Surrey had invested in.

Cash-flow analysis

20. The Committee received a cash-flow analysis for quarters four (2017/18) to quarter one (2018/19) (1 January 2018 – 30 June 2018). It was noted that the Surrey Pension Fund showed positive cash flow.

Valuation report

21. The Committee welcomed the new Fund actuary, Gemma Sefton, representative from Hymans Robertson.
22. It was noted that the next triennial valuation was scheduled for 31 March 2019 and Hymans had produced a draft project plan with 6 months still available to refine it.
23. The Committee received a presentation on the investment strategy and were asked to consider moving from one investment strategy for all employers to multiple strategies to better suit groups of similar employers. It was highlighted that this approach would produce better funding outcomes for employers, reduce risk to the fund, increase flexibility for setting funding plans, keep pace with other Funds in LGPS and would meet the increasing needs of employers.
24. The Committee were advised that although extra costs were involved in this complex work, assurance was given that these costs provided long term value.
25. To support further understanding the Chairman asked officers to explain the current strategy and the proposed strategy in an update report for a future meeting.

Annual report

26. The Committee noted and approved the Annual Report for publication subject to audit approval (further details on this item are included in a separate paper).

National Pooling Update

27. This is included in a separate paper.

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Sources/background papers:

Annexes:

1. Pension Fund Committee Forward Plan
2. Pension Fund Committee Action Tracker
3. Local Pension Board committee report